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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

INTEREST RATES MOVE DOWN

FOR the past several years the pressure on interest rates has been down. Two primary causes of these lowering rates have been the government's cheap money policy (both through its Federal Reserve operations and its activity in housing), and a lack of any real shortage of lendable funds.

The government's activity in the housing field has been particularly effective in depressing the interest rate on home loans, while the results of its operations through the Federal Reserve have been to depress rates generally. While there is some economic wisdom and advantage to keeping interest rates low when the public debt is high, we have long questioned the advisability of these extremely low rates in regard to low (or no) equity home loans.

There are some students of the subject who contend that the government guarantee reduces the risk and that, therefore, the rate on insured loans should be lower. Although we will agree that the less the risk the lower (within reason) should be the rate, we do not subscribe to the theory that government guarantee reduces the risk. Government-insured loans at 80 to 90%, 100% or perhaps even 110% of value are no sounder than the same loans would be if made by private lenders. There is, however, a transfer of the risk from the lender to the taxpayers. Therefore, in the interest of a sound economy the recipient of the loan should be required to pay a higher service charge to the government in order to underwrite this burden that will eventually fall across the shoulders of the taxpayers. An arrangement of that nature would, however, remove much of the attractiveness of government-insured loans.

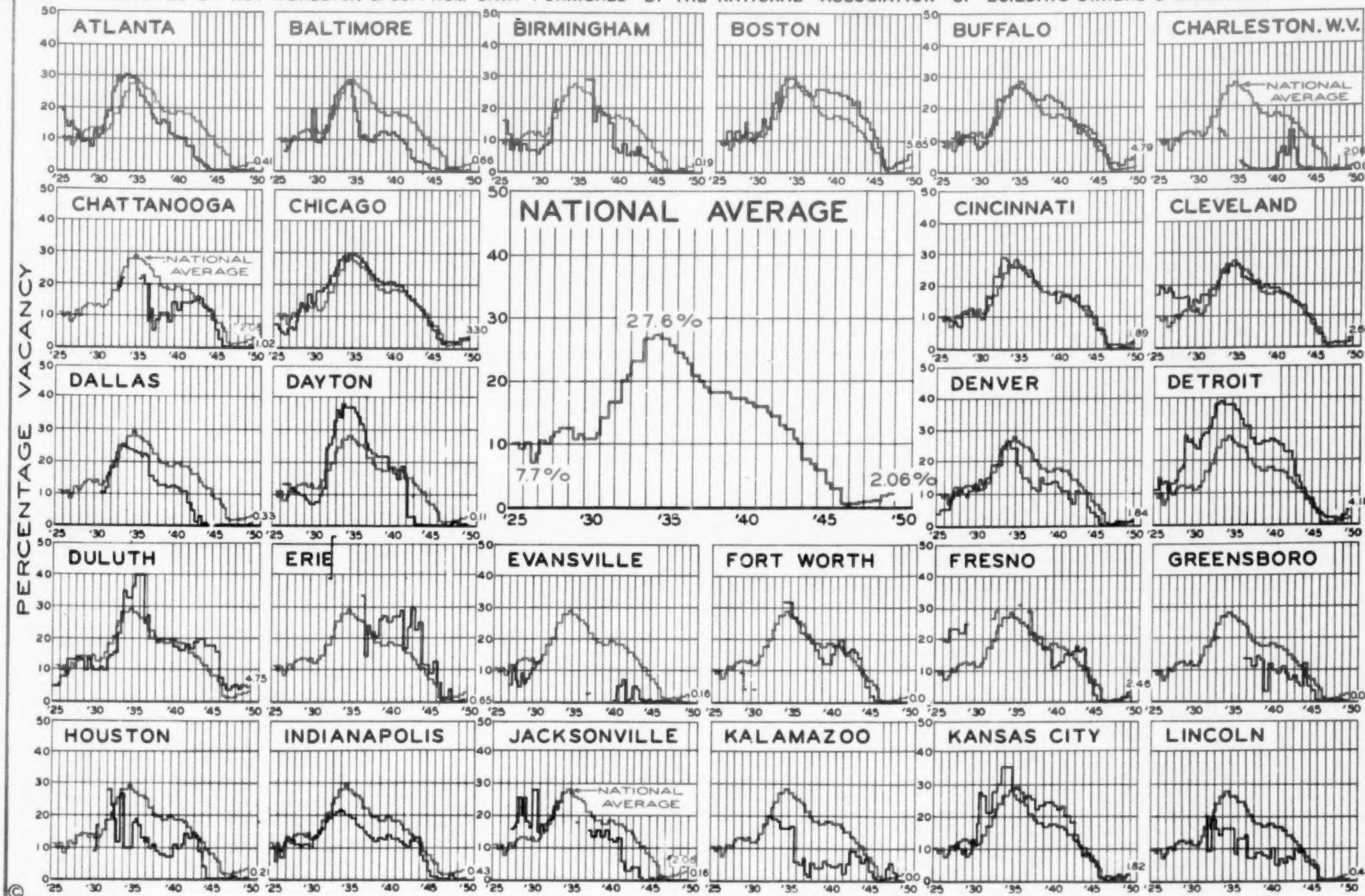
In the early days of the FHA real estate values were at a very low ebb and had started moving up slowly. There was actually little or no risk to making or insuring 100% or even 110% loans. In fact, events have revealed that in many cases loans of 200% or higher would have paid out satisfactorily. Since the end of the war, however, real estate values have reached their peak and in some instances have started receding. The risk factor has increased enormously, but the lending policy of the government has, if anything, become more liberal. We think that the FHA has been one of the most worthwhile of all government bureaus, but we seriously question the prudence of its postwar credit policies.

The chart on the left side of page 525 shows the comparison between the average mortgage interest rates in St. Louis (red line) and in Manhattan (blue line). These rates deal with the actual number of mortgages rather than the dollar amount. For this reason the Manhattan rate is probably shown a bit higher than it actually is.

(cont. on page 524)

OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



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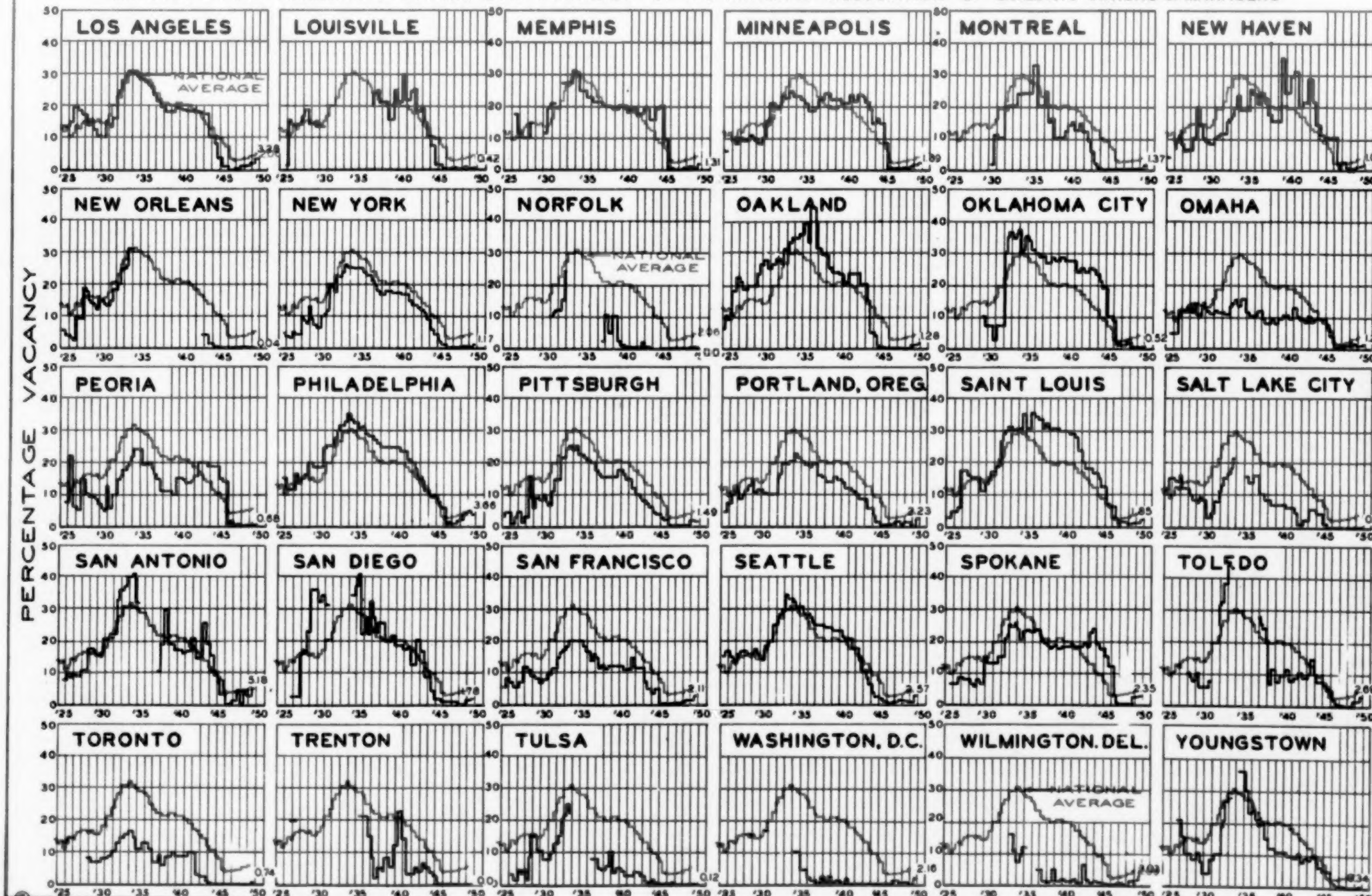


OFFICE BUILDING VACANCY RISING SLOWLY

SINCE reaching its low point in 1946, the office building vacancy index has been creeping up very slowly. It now stands at 2.06%. In other words, the office building space in the country is still virtually 98% occupied. So far, during the present boom, a comparatively small number of new office buildings have been erected, and we believe that there is little possibility of seeing another period of wild activity in this field for a number of years. Although we think that the closing days of this boom will be accompanied by some increases in the number of new office buildings, we believe that the activity will be mild compared to that of the 1929-1930 period. Consequently, there is little immediate chance of a tremendous oversupply of office space and resulting high vacancy.

Since most real estate booms in the past have been ushered out by increased activity in large investment properties, it is probable that there will be some acceleration in the rate at which these properties are turned over within the next few years. Any large scale construction boom of office buildings is still very remote, however, due to the unfavorable relation between original cost and net income. Except in unusual instances a new office building simply costs too much. The return is not commensurate with the risk.

The five cities with office building vacancy in excess of 4% are Boston, 5.85%; San Antonio, 5.18%; Buffalo, 4.79%; Duluth, 4.75%; and Detroit, 4.18%.

Office space occupied by State, local and Federal governments declined slightly again from 6.5% to 6.06%. The lowest percentage of government occupancy was found in Massachusetts, Connecticut, Rhode Island and Maine (about 2%), while the highest percentage was found in the California cities (slightly cver 9%).

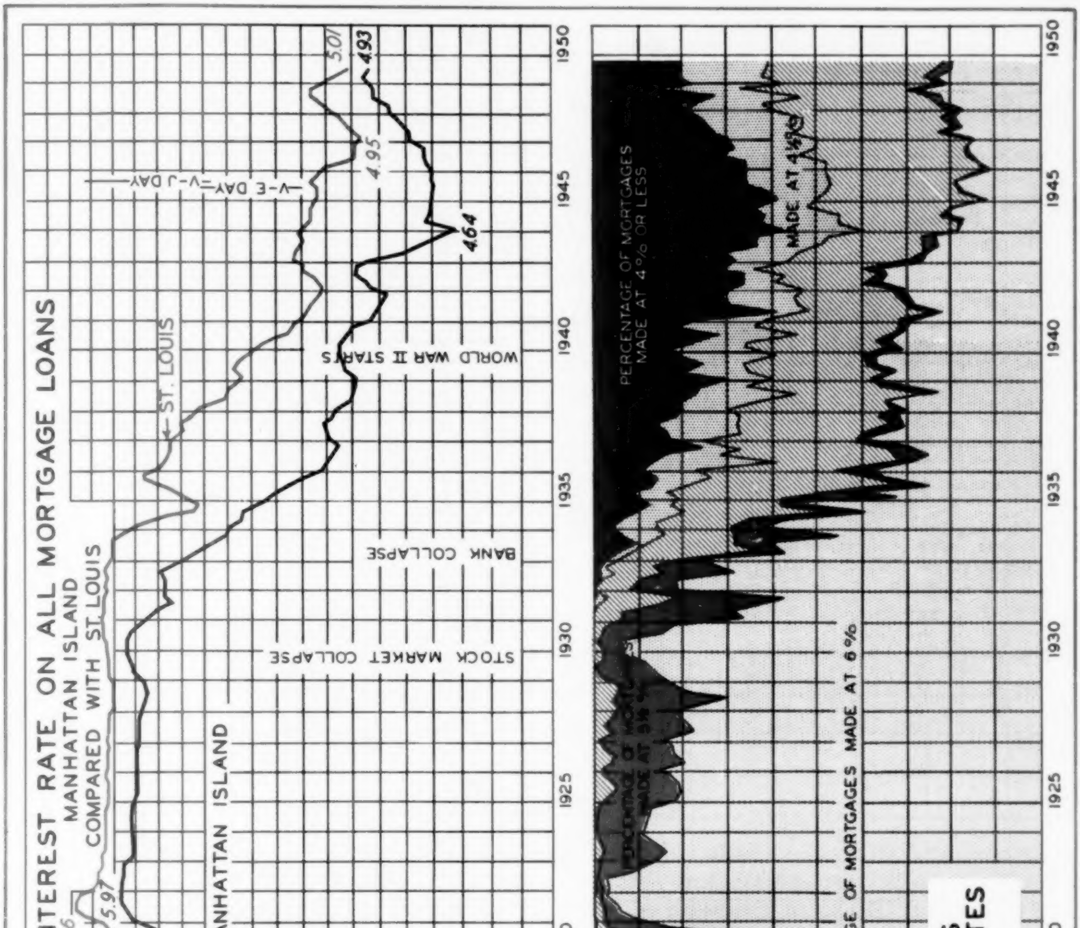
INTEREST RATES MOVE DOWN

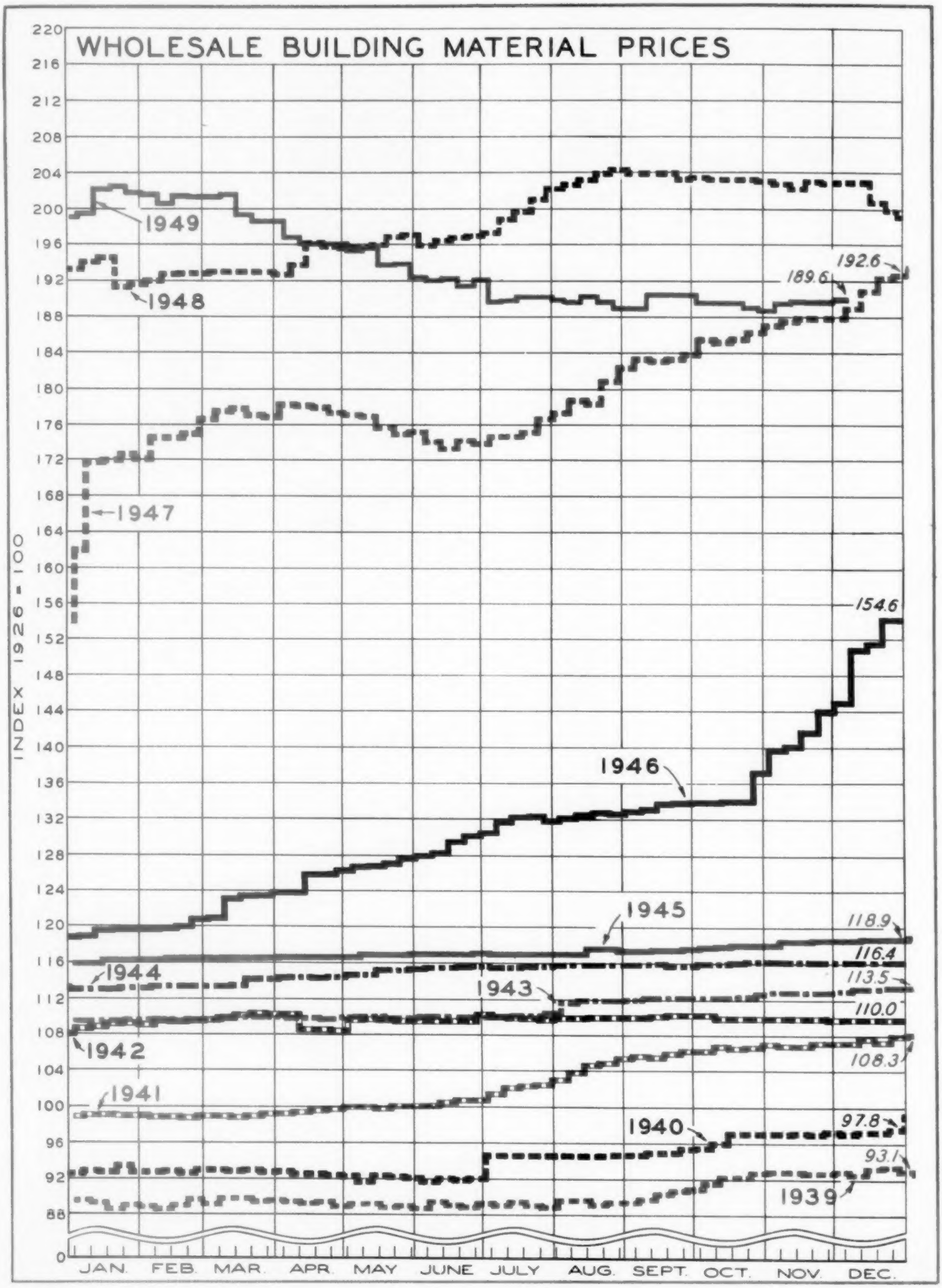
(cont. from page 521)

Interest rates on the Island are traditionally lower than those in other parts of the country. The home offices of a great many financial institutions are located there and competition is keener than that found in other areas. A large percentage of Manhattan loans are made to refinance existing buildings with proved operating records and these loans are based on anticipated net income and not on replacement cost. This factor has a tendency to make the loans safer and, therefore, subject to less risk loading. The high construction costs of recent years have tended to retard the erection of competing buildings on Manhattan, therefore benefiting the occupancy and income records of the existing buildings and making loans on them less risky.

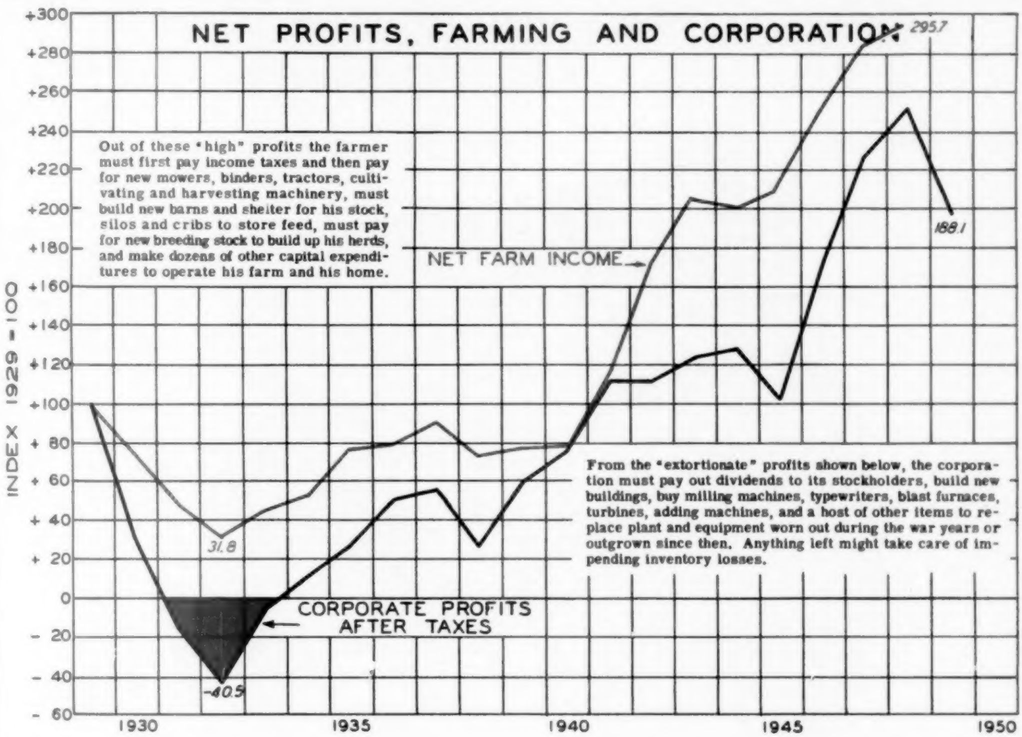
The average interest rate in St. Louis is made up predominantly of the rates on loans against single-family dwellings. The downward trend from 1934 through 1946 was influenced drastically by the cut-rate policies of the FHA and reached its low point at the end of 1946 at the same time VA loan activity was at its peak. After rising for about a year and a half, the index leveled off briefly and since late 1948 has been dropping steadily.

We believe that the forces that have brought on low rates will continue to predominate for at least the next year or so and, therefore, believe that interest rates will level off at about their present point or perhaps ease down a little more. We do not expect a general rise in interest rates for some time.


AVERAGE INTEREST RATE ON ALL MORTGAGE LOANS
MANHATTAN ISLAND
COMPARED WITH ST. LOUIS
AVERAGE INTEREST RATES
%6.40
6.20
6.00
5.80
5.60
5.40
5.20
5.00
4.80
4.60
4.40
4.30
1905
1910
1915
1920
1925
1930
1935
1940
1945
1950
PANIC OF 1907
WORLD WAR I STARTS
ARMISTICE
STOCK MARKET COLLAPSE
BANK COLLAPSE
WORLD WAR II STARTS
V-E DAY
V-J DAY
MANHATTAN ISLAND
ST. LOUIS
6.16
5.97
4.64
4.95
5.01
4.93
PERCENTAGE OF MORTGAGES MADE AT VARYING INTEREST RATES ON MANHATTAN ISLAND
PERCENTAGE
100
90
80
70
60
50
40
30
20
10
0
PERCENTAGE OF MORTGAGES MADE AT 5%
PERCENTAGE OF MORTGAGES MADE AT 6%
PERCENTAGE OF MORTGAGES MADE AT 4% OR LESS
MADE AT 4½%



WHOLESALE BUILDING MATERIAL PRICES
INDEX 1926 = 100
220
216
212
208
204
200
196
192
188
184
180
176
172
168
164
160
156
152
148
144
140
136
132
128
124
120
116
112
108
104
100
96
92
88
0
1949
1948
1947
1946
1945
1944
1943
1942
1941
1940
1939
189.6
192.6
154.6
118.9
116.4
113.5
110.0
108.3
97.8
93.1
JAN.
FEB.
MAR.
APR.
MAY
JUNE
JULY
AUG.
SEPT.
OCT.
NOV.
DEC.



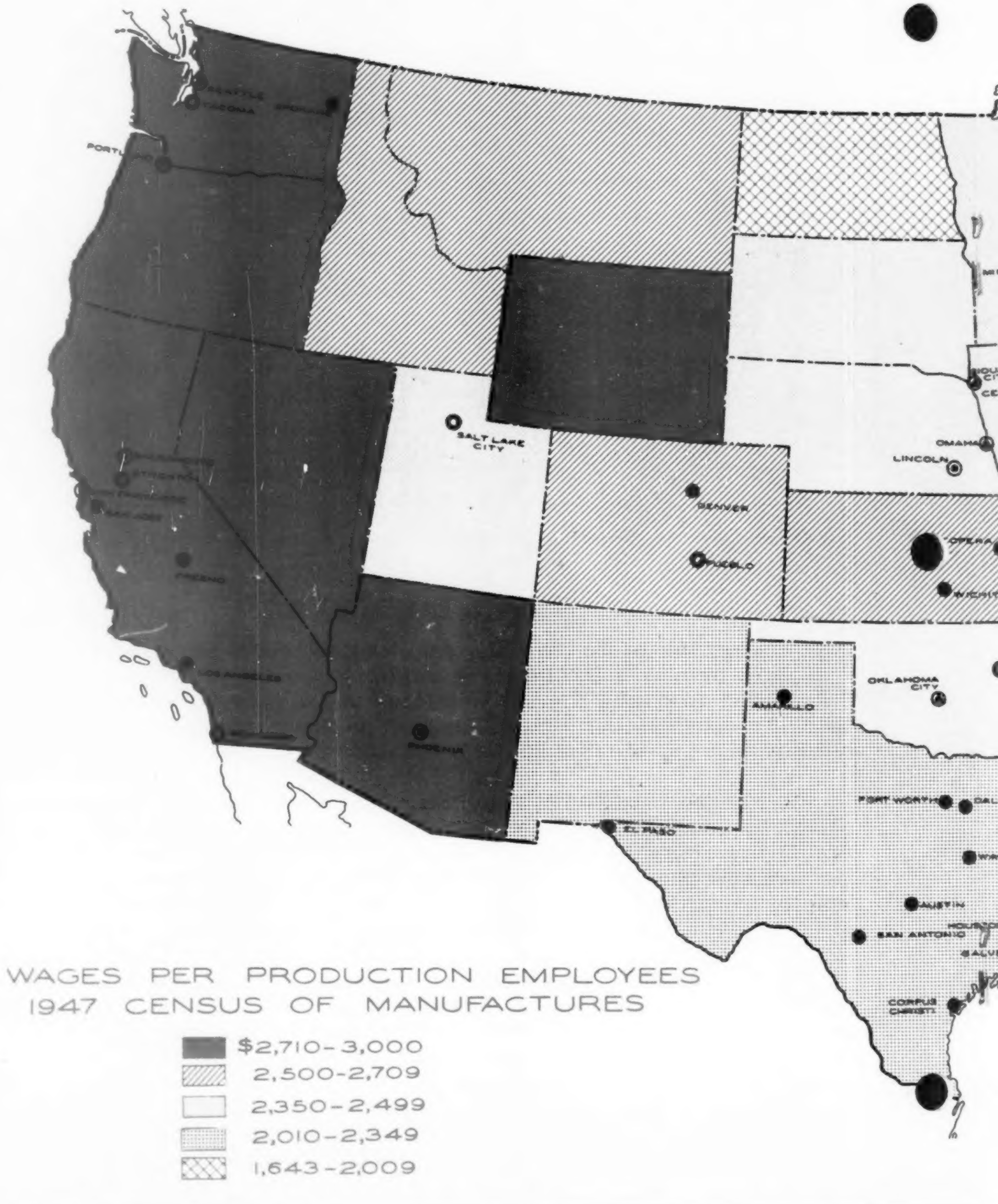
PROFITS TAKE DIG DIP

THE red line on the chart above shows the index of net return to farm operators from 1929 through 1948 before income tax deductions. The dollar amount reached $17.4 billion in 1948 and is expected to be off about 10% in 1949. The blue line shows the index of net profits earned by corporations after income taxes from 1929 through 1948. The 1949 figure is a preliminary one.

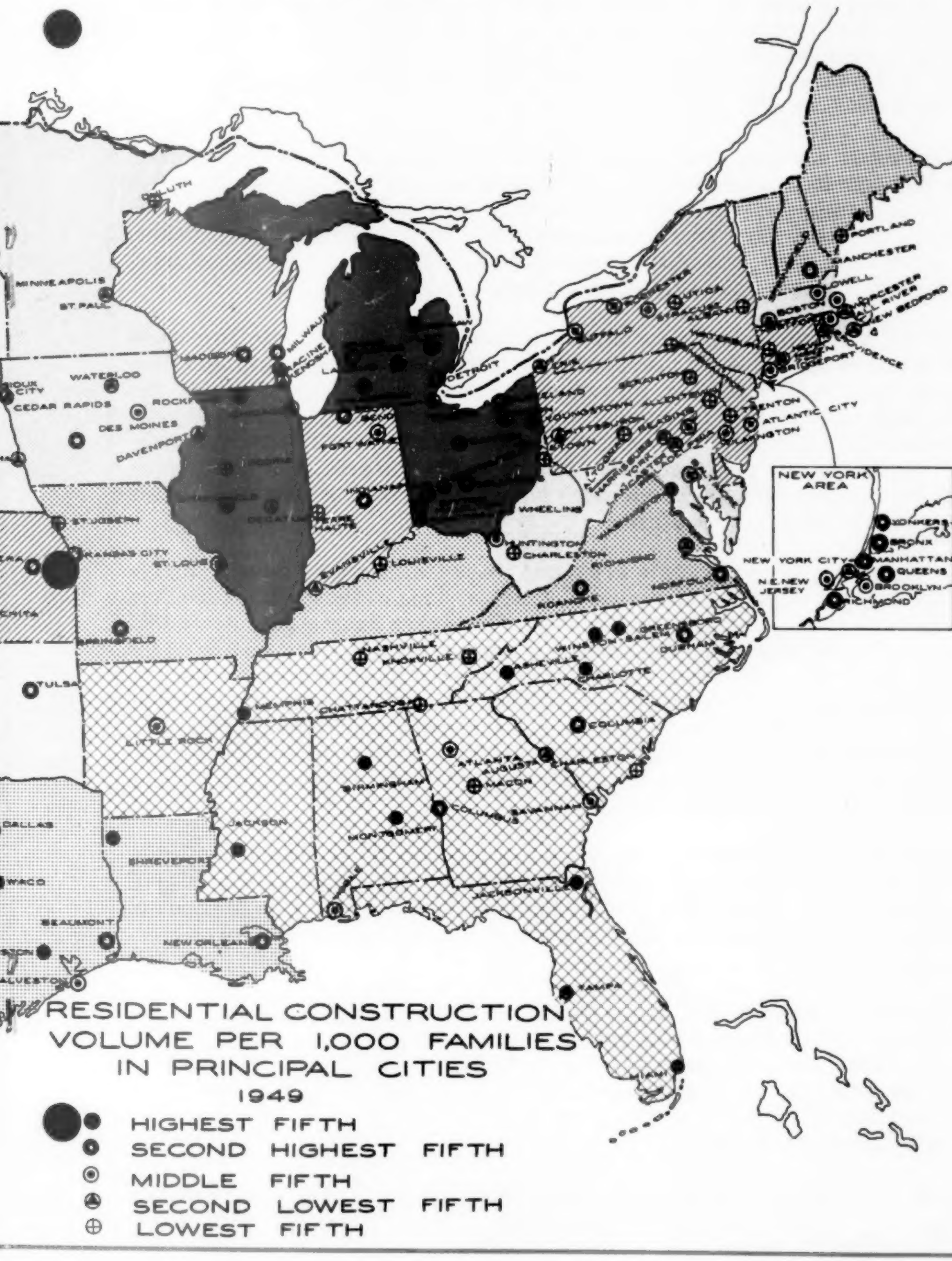
The decline in profits of these two major segments of our economy is particularly significant in view of the recent gains and increased demands of labor. The decline in farm profits goes hand in glove with falling food prices, indicating that the economic pressure created by high living costs is slackening. For this reason, the unions have restyled their demands and are working toward pensions and other social benefits rather than pleading on the basis of high living costs.

The big drop taken by corporate profits reveals the result of the two-way squeeze placed on them by falling sales and rising labor costs. Regardless of what name is given to the gains sought by labor, whether they be pensions or longer paid vacations, or severance pay, or a minimum work week, the eventual and unescapable conclusion is higher production costs. These increased costs can be partially reduced through greater productivity of labor-saving machinery, but the bulk of their burden must be drained from the stockholders, by way of further reduced profits, or must be added to the selling price, thereby passing on a portion of the increased costs to the customers.

RANKING OF THE STATES BY WAGES
AND RESIDENTIAL CONSTRUCTION



ES PER PRODUCTION EMPLOYEE
ON IN PRINCIPAL CITIES



NATIONAL DISTRIBUTION OF PROSPERITY

EVERYONE who can read or listen to a radio, or who has had any contact with the postwar American economy, knows that we are in the midst of almost overwhelming prosperity. It is also equally well known that while this prosperity covers virtually every square mile of our great nation, it is spread a good deal thicker in some areas than in others. Although it is rather difficult to paint an over-all picture by chart presentation, we have made this attempt on the map which appears on pages 528 and 529.

Two of the most stalwart components of our prosperity are high construction activity and high wages in manufacturing. Within certain limits, those areas which benefit the most from these two components may be regarded as those enjoying the greatest degree of prosperity. This assumption is not necessarily true in all cases, as will be pointed out later, but high construction activity and high manufacturing wages are usually accompanied by bountiful times.

The different shades of color in the various States on the map indicate how these States rank in wages paid by their manufacturing industries. Of those States in the leading group (solid red), Wyoming, Nevada and Arizona are the top three. In the case of these three States, this is not necessarily indicative of high prosperity due to the comparatively small number of manufacturing workers that live in Wyoming, Nevada and Arizona. Among the other States making up this top group, the high wages paid to manufacturing workers are particularly significant in the big industrial States of Ohio, Illinois, Michigan and California.

On the other end of the wage scale are found those States where manufacturing wages are the lowest. With the exception of Florida, none of these States has had what could be called an outstanding and sustained business boom. It is noted that these States are for the most part predominantly agricultural and that most of them are located in the South. As is well known, one of the outstanding problems of the South is the imbalance between its manufacturing and agricultural employment. There are too many people on the farms and too few employed in Southern manufacturing. Fortunately, this imbalance is slowly shifting as the smaller farms are absorbed by larger units, thereby making more agricultural employees available for work in the South's expanding industry.

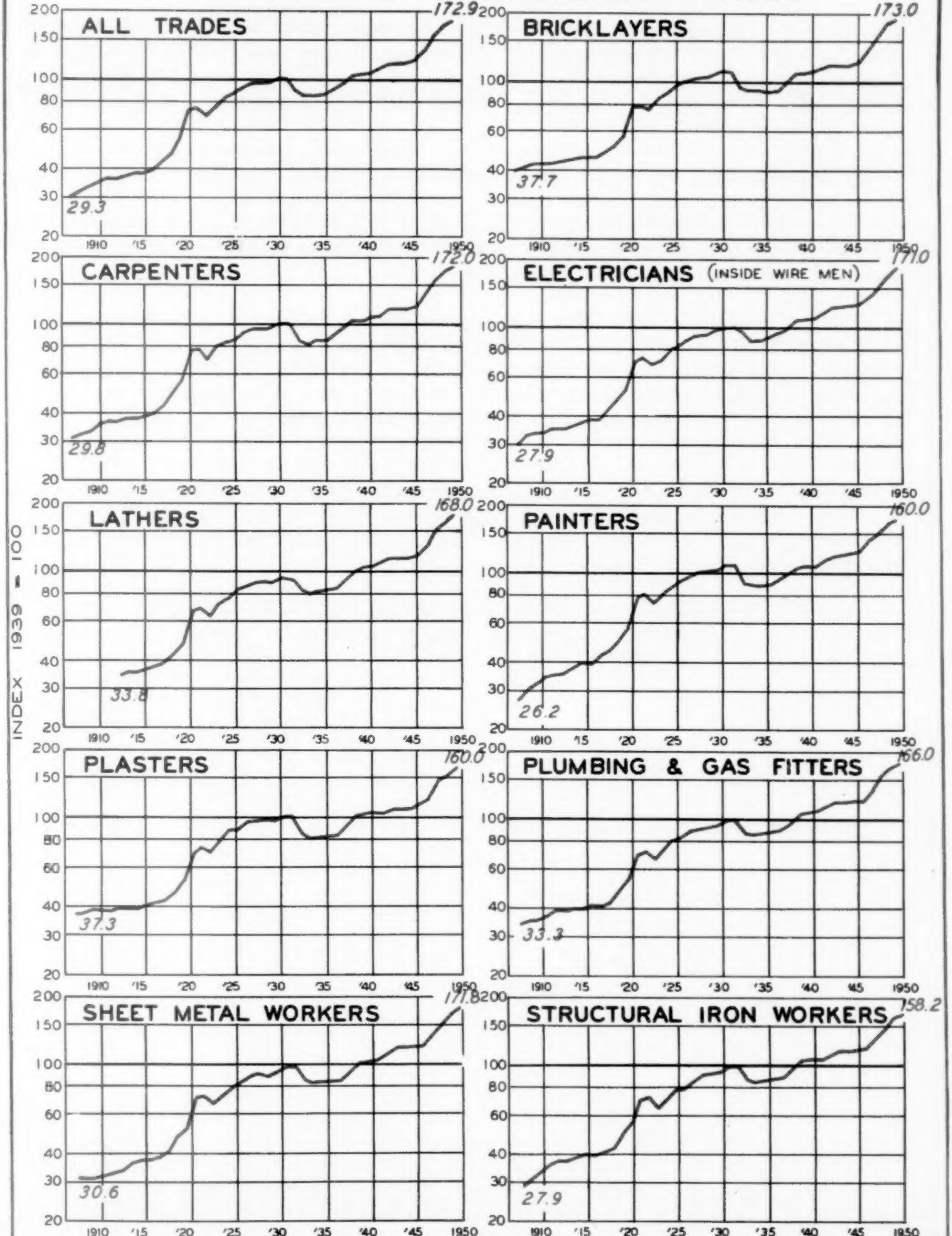
One State that is influenced very little by low manufacturing wages is Texas, which is in the next-to-lowest group in this classification. Despite a very low level of manufacturing wages, Texas prosperity is fabulous. Naturally, this is because the Texas boom springs largely from oil, construction and agriculture - all three non-manufacturing enterprises.

The second factor shown on the map is the degree of residential construction activity achieved by various metropolitan areas. There are 140 areas shown and their ranking in residential construction activity is designated by the type of dot marking their geographic location. By residential construction activity we mean the number of nonfarm residential units started in each metropolitan area in relation to the number of nonfarm families in each area.

Although Miami, Florida, has had the highest activity, this is partly because many

(cont. on page 536)

WAGE RATES OF THE BUILDING TRADES



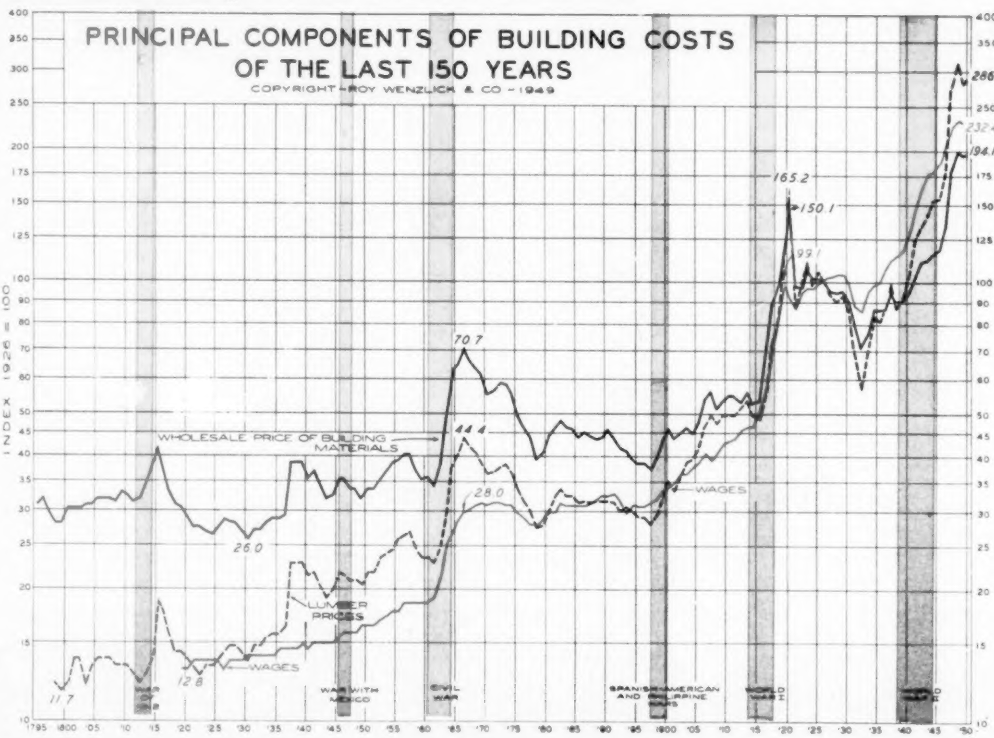
BUILDING COSTS START BACK UP

IN August of this year the building material price index reversed its downward course and started slowly upward. Following its high point of 204.1 reached in late 1948, this price index fell slowly until it reached a level of 188.2 just four months ago. Since then it has climbed slowly until it now stands at 192.6, or 92.6% above the 1926 price level.

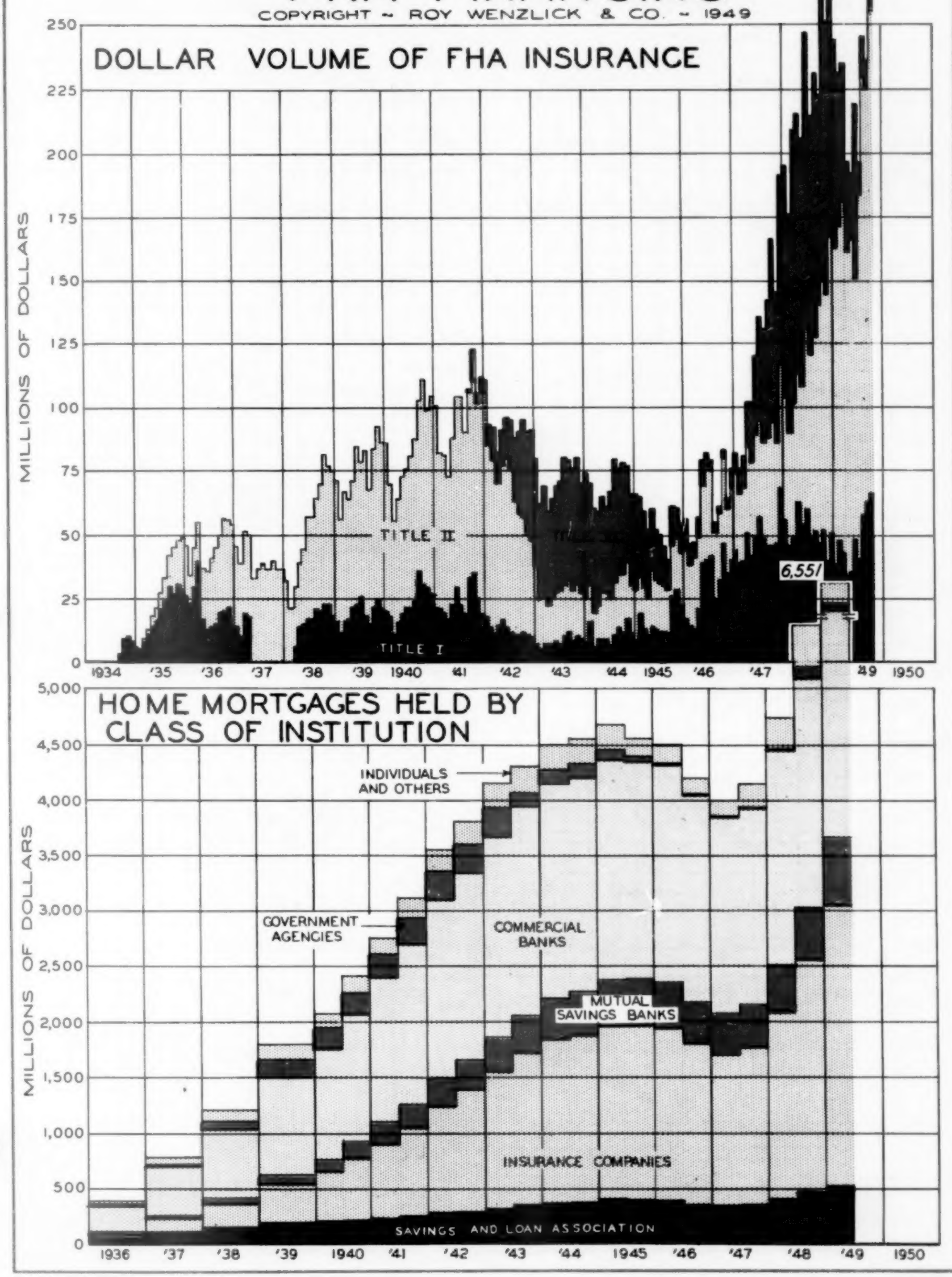
During this same period the lumber price index has behaved in a similar though more exaggerated manner. After reaching its peak of 319.5 in August 1948, the lumber price index dropped steadily for 11 months to a reading of 277.4 in July 1949. Following this 13% drop, the index soon began to climb slowly, and at present is approximately 2% above the July reading.

The chart below shows the course taken by the indexes of principal building costs from 1795 through 1949. The figures shown are yearly averages and differ from the monthly figures used in the preceding paragraphs. In our opinion, building material prices will bob around their present level for possibly the next 10 or 12 months, being up a bit one month and down a bit the next, with a good chance for the trend to be downward -- slowly.

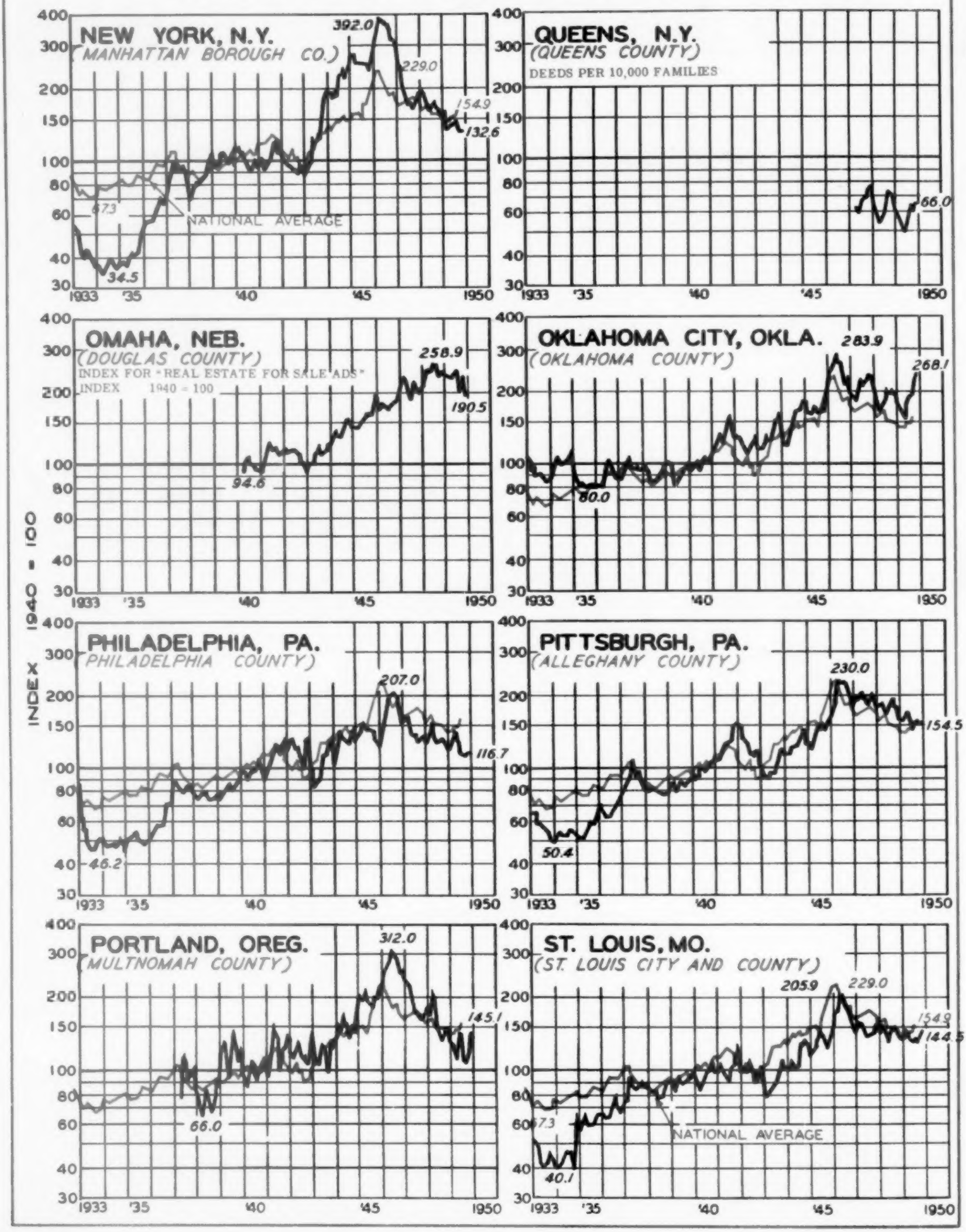
We have pointed out before, and do so again, that there is usually not much to be gained by a person's postponing the building of his new home. There will, over a period of years, be a sizable drop in building costs, but by then incomes may be lower and financing is certain to be more difficult.

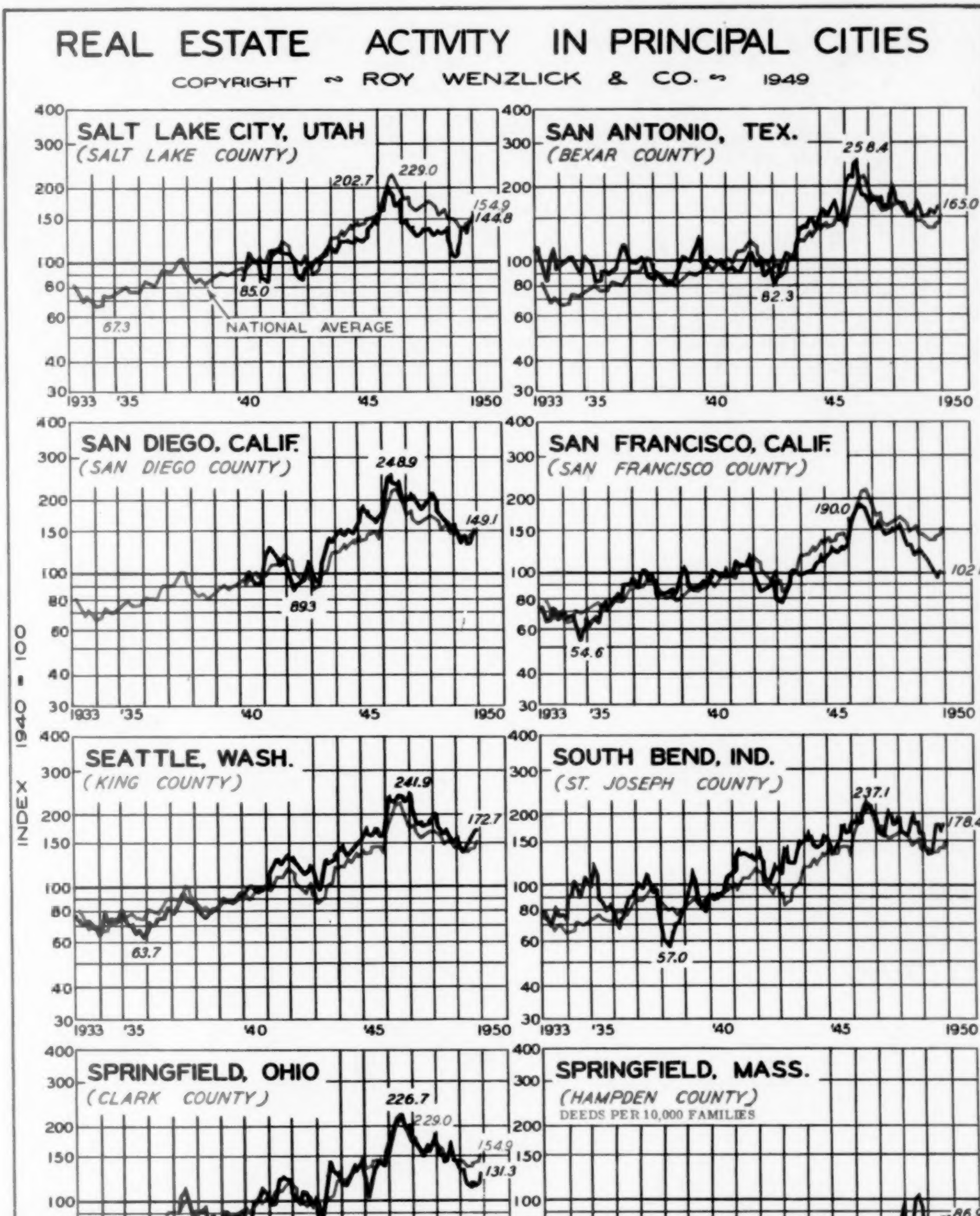


FHA FINANCING



REAL ESTATE ACTIVITY IN PRINCIPAL CITIES




REAL ESTATE ACTIVITY IN PRINCIPAL CITIES
COPYRIGHT ~ ROY WENZLICK & CO. ~ 1949
INDEX 1940 = 100
SALT LAKE CITY, UTAH
(SALT LAKE COUNTY)
202.7
229.0
154.9
144.8
85.0
67.3
NATIONAL AVERAGE
SAN ANTONIO, TEX.
(BEXAR COUNTY)
258.4
165.0
82.3
SAN DIEGO, CALIF.
(SAN DIEGO COUNTY)
248.9
149.1
89.3
SAN FRANCISCO, CALIF.
(SAN FRANCISCO COUNTY)
190.0
102.1
54.6
SEATTLE, WASH.
(KING COUNTY)
241.9
172.7
63.7
SOUTH BEND, IND.
(ST. JOSEPH COUNTY)
237.1
178.4
57.0
SPRINGFIELD, OHIO
(CLARK COUNTY)
226.7
229.0
154.9
131.3
82.4
67.3
NATIONAL AVERAGE
SPRINGFIELD, MASS.
(HAMPDEN COUNTY)
DEEDS PER 10,000 FAMILIES
86.9
1933 '35 '40 '45 1950

NATIONAL DISTRIBUTION OF PROSPERITY

(cont. from page 530)

units have been built for the tourist trade. Tourist families are not included in the count of the area's permanent residents so this factor alone would tend to distort the construction activity in Miami. Regardless of how the statistics are handled, however, Miami has had, and is still in the midst of, a fine building boom.

The Los Angeles Metropolitan Area has compiled an incredible record in residential construction. From 1941 through the third quarter of 1949, an estimated 413,700 residential units have been built there. This is over 50% more dwelling units than are standing in the entire city of St. Louis, and is more than enough to house the combined 1940 population of Nashville, Memphis, Knoxville and Chattanooga, Tennessee; Little Rock, Arkansas; and Denver, Colorado. And this remarkable volume has been achieved in less than nine years. In this period nearly 8-1/2% of all nonfarm residential construction started in the entire country has been started in the Los Angeles Metropolitan Area.